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MEMORANDUM

DATE: August 28, 2001

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Management Audit of Vanpool Replacement and Surplus Practices

Attached for your review is the Vanpool Replacement and Surplus Practices audit report. The primary objectives of the audit were to review the reasonableness of Metro Transit's vanpool operations with respect to its replacement and surplus practices for used passenger vans; determine the VanPool Program's compliance with the council-mandated recovery of costs; and review the VanPool Program's rate-setting methodology for developing passenger fares that became effective in 2000.

The general audit conclusion is that the Metro Transit's replacement and surplus practices for used passenger vans are reasonable, except that the VanPool Program appears to maintain more vans in the retired fleet than are necessary for vanpool groups and to meet other program needs. The report recommends that Rideshare Operations Section establish a system for evaluating a cost-effective inventory of vans. The system should include timely sale of vans and other fleet changes consistent with achieving the program's objectives.


The Executive's response concurs with the audit findings and recommendations and is contained in Appendix 2 of the report. Responses to the individual findings and recommendations are incorporated into the audit text.

The Auditor's Office sincerely appreciates the cooperation received from the Rideshare Operations Section's management and staff.

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MANAGEMENT AUDIT

VANPOOL REPLACEMENT AND SURPLUS PRACTICES



Presented to
the Metropolitan King County Council
by the
County Auditor's Office

Cheryle A. Broom, CGFM, CIG, King County Auditor
Bert Golla, CPA, Senior Financial Auditor
Susan Baugh, CGFM, Principal Management Auditor

Report No. 2001-02

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REPORT SUMMARY

Introduction

The management audit of Metro Transit's VanPool Program replacement and surplus practices was initiated at the request of the Metropolitan King County Council and included in the council-adopted 2000 Auditor's Office work program. The council was interested in determining the reasonableness of Transit's vanpool replacement and surplus practices. In addition, the audit included a review of the VanPool Program's compliance with the council-mandated recovery of costs, and a review of the VanPool Program's rate-setting methodology for developing fares that became effective in 2000.

Audit Objectives

The audit objectives were to review the reasonableness of Metro Transit's vanpool operations with respect to its replacement and surplus practices for used passenger vans; determine the VanPool Program's compliance with the council-mandated recovery of costs; and review the VanPool Program's rate-setting methodology for developing passenger fares that took effect in 2000.

General Conclusion

The general audit conclusion is that the Metro Transit's replacement and surplus practices for used passenger vans are reasonable, except that the VanPool Program appears to maintain more vans in the retired fleet than are necessary for vanpool groups and to meet other program needs.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Finding 2-1 (Page 8)

In 1998 through May 2001, the VanPool Program appeared to maintain more vans in the retired fleet than were necessary for vanpool groups and to meet other program needs.

The audit staff noted that Rideshare Operations Section had apparently kept on a regular basis an inventory of retired vans that were not immediately needed to service existing vanpool groups and to meet other program needs.

As illustrated in Exhibit D (page 9), after allowing provisions for trades and program growth, an estimated 40 vans in 1998, 70 vans in 1999, 110 vans in 2000, and 50 vans for the first five months in 2001, were not essential to be maintained in the retired fleet. The market value of 50 vans in 2001 was estimated at \$320,000.¹

Audit staff recognizes that numerous considerations drive the level and type of fleet maintained and the timing of van purchases and sales. These considerations should be systematically monitored and analyzed to ensure that the fleet inventory is cost-effective. While VanPool Program management addresses many significant considerations, we did not find a systematic approach that quantified the combined economic impact of these considerations or tradeoffs. Such an analysis would include the net financial impact of: 1) maintaining vans in the fleet beyond the number required to meet estimated program needs; 2) selling retired vans sooner and in larger volume rather than holding the release of some vans to achieve a better resale value, and 3) holding extra vans to derive lease and loan

¹ Based on average resale prices of all vans sold through the broker during the first five months of 2001. Other factors that may affect resale prices such as van sizes and market demands were not considered.

income.² Absent a more quantified evaluation, the current level of retired vans does not seem justified.

The audit recommended that Rideshare Operations Section establish a system for regularly evaluating a cost-effective inventory of vans. This system should include timely sale of vans and other fleet changes consistent with achieving the program's objectives.

Finding 3-1 (Page 14)

The VanPool Program did not meet the council-mandated cost recovery requirement from 1997 through 2000.

The VanPool Program did not comply with the King County Code requirement to recover the full costs of capital and operations and at least 25 percent of the administrative costs in 1997 through 2000. Despite the fare increase in 2000, the VanPool Program still failed to recover vanpool costs of approximately \$363,000 in that year as shown on Exhibit F (page 15).

The audit recommended that the Rideshare Operations Section review its VanPool Program fare structure and operating costs to adjust fares, as needed, to ensure compliance of the King County Code, which requires full recovery of capital and operations costs and at least 25 percent of administrative costs.

Finding 3-2 (Page 16)

The VanPool Program rate-setting process could be improved by developing policy guidelines that address some factors affecting fares.

The audit staff reviewed the records used by Metro Transit to project adjustments for passenger fares that became effective in

² VanPool Program generated income of \$10,000, \$58,000, and \$63,000 from lease and loan of vans in 1998, 1999, and 2000, respectively.

April 2000. As discussed on pages 13 to 15, some important factors needed to be addressed by Metro Transit to improve its process in establishing future adjustments for passenger fares. These factors included the recovery rate from surplus sale of used vans, estimated life cycle of vans used in vanpool operations, administrative costs for cost recovery requirement, and frequency of review of vanpool costs and adjustment of passenger fares.

The audit recommended that the Rideshare Operations Section develop policy guidelines for calculating passenger fares that include recovery rate from surplus van sales, impact of the six-year life cycle, clarification of administrative costs, and frequency of schedule for reviewing and adjusting vanpool passenger fares to comply with council intent.

AUDITOR'S MANDATE

Metro Transit's vanpool replacement and surplus practices were reviewed by the County Auditor's Office pursuant to Section 250 of the King County Home Rule Charter and Chapter 2.20 of the King County Code. The audit was performed in accordance with generally accepted government auditing standards, with the exception of an external quality control review.

1 INTRODUCTION

Background

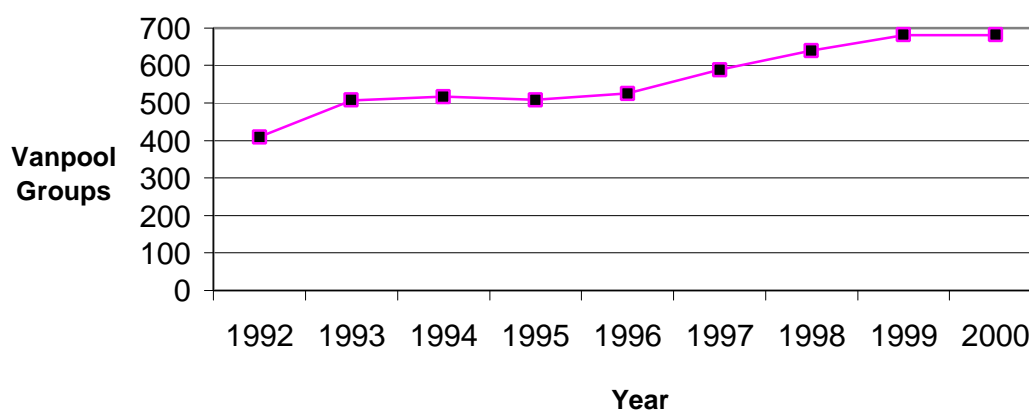
The management audit of Metro Transit's VanPool Program replacement and surplus practices was initiated at the request of the Metropolitan King County Council and included in the council-adopted 2000 Auditor's Office work program. The council was interested in determining the reasonableness of Transit's vanpool replacement and surplus practices. In addition, the audit included a review of the VanPool Program's compliance with the council-mandated recovery of costs, and a review of the VanPool Program's rate-setting methodology for developing fares that became effective in 2000.

The King County VanPool Program's primary goal is to provide a flexible transit option for groups of 5 to 15 commuters for the purpose of saving time and money while reducing single-occupant vehicle trips in King County and the Puget Sound Region. The vanpool groups establish their own routes and schedules. They pay fares based on the vanpool group's round trip mileage, the number of riders that share the van, and weekly work schedule. Individual vanpoolers, except the drivers, pay their share of the total fixed monthly fares. The larger the van and the more participants, the lower the fare for everyone in the group. The cost to participants is further reduced through subsidies provided by employers.

The VanPool Program was established by the city of Seattle in 1979 with 21 vans and was transferred to Municipality of Metropolitan Seattle (Municipality of Metropolitan Seattle and King County merged in 1994) in 1984. According to Resolution No. 4338, adopted by the Council of the Municipality of Metropolitan Seattle on March 15, 1984, the program goals were

to promote mobility, relieve congestion, reduce pollution and energy consumption, and support regional growth. As displayed in Exhibit A, the average vanpool groups in operation steadily increased during the 1990s from 409 in 1992 to 684 in 2000; or an average annual increase of 31 vanpool groups.

EXHIBIT A
VanPool Groups in Operation
1992-2000



SOURCE: Rideshare Operations Section

King County's VanPool Program is believed to be one of the largest public vanpool programs in the country benefiting about 6,000 commuters. The county's vanpool participants originate from as far away as Marysville to the north and Olympia to the south. Various transit agencies operate similar vanpool programs in the Puget Sound Region.

The Rideshare Operations Section of the county's Metro Transit Division operates the VanPool Program. The VanPool Program's operating budget in year 2001 is \$3,811,603 with 23 full-time equivalent employees.

Audit Objectives

The audit objectives were to review the reasonableness of Metro Transit's vanpool operations with respect to its replacement and surplus practices for used passenger vans; determine the

VanPool Program's compliance with the council-mandated recovery of costs; and review the VanPool Program's rate-setting methodology for developing passenger fares that became effective in 2000.

Audit Scope and Methodology

The audit scope was limited to the review and evaluation of Metro Transit's vanpool operations with respect to replacement and surplus practices and council-mandated recoupment of costs. The methodology included a review of the King County Code; initial authorizing resolutions, motions, and ordinances; administrative policies and the operations manual for vanpool participants; and program, budgets, and other financial reports. In addition, vanpool assignments, maintenance records, van fleet status reports, replacement schedules, fares calculation reports, passenger fares, and surplus van sales were reviewed. Audit staff also conducted a physical count of passenger vans at the Metro Transit Van Distribution Center in Redmond, Washington, and interviewed Rideshare Operations Section management and staff.

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2 VANPOOL VAN REPLACEMENT AND SURPLUS PRACTICES

Introduction

This chapter focuses on the Rideshare Operations Section's management and monitoring of the vanpool fleet to determine whether its replacement and surplus practices were reasonable and cost-effective. Furthermore, the inventory of vans in the active and retired fleet was assessed to determine whether it was sufficient to meet program objectives, and the sale of surplus vans was reviewed to determine whether the management-expected recovery rate was achieved.

Rideshare Operations Section regularly monitors and manages the van fleet. There are two van fleet categories: active and retired fleet. Active fleet includes vans that are currently assigned to existing vanpool groups (i.e., vans for revenue service), service loaner vans used temporarily by vanpool groups while assigned vans are being serviced or repaired, and vans that are reserved for new vanpool groups. Retired fleet includes vans that are to be surplus and sold, a few vans that are leased and loaned, and vans reserved for donation per council motion.

The decision to replace and surplus vans is based upon Rideshare Operations Section's management judgment and historic practices. The following conditions serve as guidelines when deciding whether or not to retire and replace vans:

- Van has passed the five-year cycle.³
- Odometer reading is greater than 75,000 miles.
- Van has chronic repair and maintenance problems.

³ As discussed in finding 3-2 (page 16), the life cycle was changed to six years effective 2001.

Vans that have reached the five-year life cycle, combined with high mileage, are generally retired from active service and eventually sold. Rideshare Operations Section also considers other factors, such as market demands, fleet mix, customer preference, risk and liability concerns, availability of vans in the market, and resale value when vans are removed from active service. Some vans that are over the five-year and/or 75,000-mile thresholds may remain in the active fleet.

While some retired vans are directly placed for sale, other retired vans with low mileage and in good condition are made available for short-term active vanpool service as well as for lease and loan. The retired fleet also includes a few vans that are reserved for donation to nonprofit organizations and other government agencies per council motions.⁴

Exhibit B shows the composition of active and retired fleet at year-end 2000.

EXHIBIT B
Active and Retired Fleet
December 29, 2000

Van Size	Active Fleet				Retired Fleet ⁽¹⁾			
	Vans in Operation	Service Loaners	Vans Available for New Groups	Total Active Fleet	Reserved for Donation ⁽²⁾	Lease or Loan ⁽³⁾	For Surplus "Retired Available"	Total Retired Fleet
8-Passenger	432	28	22	482	26	0	57	83
9-Passenger	2	1	3	6	0	0	0	0
11-Passenger	6	0	4	10	0	0	0	0
12-Passenger	158	20	12	190	0	0	36	36
15-Passenger	83	19	28	130	0	1	2	3
Total	681	68	69	818	26	1	95	122

⁽¹⁾ Excludes surplus vans for sale.

⁽²⁾ Per council motion No. 11083 for year 2000.

⁽³⁾ Lease or loan – Vans on short-term lease or loan to nonprofit organizations and government agencies.

SOURCE: Rideshare Operations Section Vanpool Fleet Status Report

⁴ Since 1996, the Metropolitan King County Council authorized, by motion, Metro Transit Division to lease or donate 20 to 26 high quality passenger vans annually to qualified non-profit organizations and local governments to meet the needs of elderly, disabled, or young county residents. The recipients enter into an agreement with King County, which requires them to maintain, operate, and insure the vans for their remaining useful life.

As Exhibit B indicates, the VanPool Program had a total of 940 vans in its active and retired fleet at year-end 2000. Of the 940 vans, 681 (or 73%) vans were in operation, 68 (or 7%) vans were used as service loaners, 69 (or 7%) vans were reserved for new vanpool groups, and 122 (or 13%) vans in the retired fleet with 95 available for short term active service and/or to be placed for sale.

In 1996, the county council passed an ordinance authorizing Metro Transit to sell surplus vanpool vehicles by negotiated direct sale facilitated by a broker, in addition to disposing of surplus vanpool vans by public auction. Based on the analyses of surplus van sales from 1996 through 1999, the audit staff noted that broker-assisted sales of surplus vans generated higher recovery rates than sales through public auction. Exhibit C presents a comparison of recovery rates, less selling expenses generated from the two sales methods.

EXHIBIT C
Recovery Rates of Broker-Assisted Sales Compared to
Public Auction Sales
1996-1999

No. of Vehicles Sold	Average Age	Average Mileage	Recovery Rate--Broker	Recovery Rate--Auction
9 Auction	8.00	97000		16.09%
14 Broker	8.14	104000	25.59%	
6 Auction	7.83	84000		23.94%
38 Broker	7.26	94000	35.86%	
6 Auction	6.00	71000		40.20%
237 Broker	6.65	71000	48.28%	

Note: The audit staff did not determine what the prevailing recovery rate standards are in the industry.

SOURCE: Rideshare Operations Section Surplus Van Sales Reports

As Exhibit C shows, the VanPool Program achieved about ten percent higher recovery rate from the sale of used passenger vans by broker-assisted sales than by public auctions. This occurred even though the vans had slightly higher average mileage and were older, when sold by the broker. Since 1999, the VanPool Program has sold vans exclusively through a broker.

FINDING 2-1**IN 1998 THROUGH MAY 2001, THE VANPOOL PROGRAM APPEARED TO MAINTAIN MORE VANS IN THE RETIRED FLEET THAN WERE NECESSARY FOR EXISTING VANPOOL GROUPS AND TO MEET OTHER PROGRAM NEEDS.**

The audit staff noted that Rideshare Operations Section had apparently kept on a regular basis an inventory of retired vans that were not immediately needed for existing vanpool groups and to meet other program needs. Exhibit D displays the average number of vehicles not fully utilized in 1998 through May 2001. It includes the average number of vans that were in active and retired fleet available for new vanpool groups and other assignments, vans received from discontinued vanpool groups, and vans provided to new vanpool groups in those years.

EXHIBIT D
Estimate of Vans Not Fully Utilized in Vanpool Operations
1998 Through May 2001

	1998	1999	2000	2001 ⁽¹⁾
Average vans available for assignment ⁽²⁾	99	137	172	104
Add: Discontinued vanpool groups – vans returned	<u>8</u>	<u>11</u>	<u>13</u>	<u>7</u>
Total	107	148	185	111
Less: New vanpool groups - vans issued	<u>(12)</u>	<u>(15)</u>	<u>(11)</u>	<u>(11)</u>
Average number of vans not used	95	133	174	100
Less: Provision for trades or back-up vans ⁽³⁾	(13)	(21)	(23)	(13)
Provision for expansion ⁽⁴⁾	(40)	(40)	(40)	(40)
Average vans not fully utilized	<u>42</u>	<u>72</u>	<u>111</u>	<u>47⁽⁵⁾</u>

See Appendix 1 for further details showing monthly averages for vans in operations, retired and active fleet, and monthly vanpool group activities in 1999 and 2000.

⁽¹⁾ For five-month period ending May 2001.

⁽²⁾ From active and retired (for surplus) fleet excluding council-approved donated, leased, and loaned vans.

⁽³⁾ Based on monthly average trade activities for vans.

⁽⁴⁾ Management projection for program expansion.

⁽⁵⁾ Excludes three vans earmarked for donation per council motion 11083 approved November 2000, and 26 vans similarly earmarked for council motion planned to be introduced in September 2001.

SOURCE: Rideshare Operations Section Vanpool Fleet Status Reports and Vanpool Status Reports

After allowing for trades and program growth, an estimated 42 vans in 1998, 72 vans in 1999, 111 vans in 2000, and 47 vans for the first five months in 2001 were not essential to the VanPool Program. The market value of 47 vans in 2001 was estimated at \$320,000.⁵

Delays in placing under utilized retired vans on the market potentially decreases their resale value as younger vans generally have higher resale value. The capital resources are also not recaptured and invested in a timely manner. Furthermore, the quicker each passenger van is sold and placed into service, the earlier the opportunity for reduction of single-occupant vehicles from the road is achieved.

According to VanPool Program management, retired vans in good physical condition and mechanical performance are

⁵ Based on average resale prices of all vans sold through the broker during the first five months of 2001. Other factors that may affect resale prices such as van sizes and market demands were not considered.

retained in the retired fleet until placed for surplus sale. This allows the VanPool Program to use them for short-term active service in case the inventory of active fleet falls short to meet the demands of vanpool groups. It also gives them flexibility to respond quickly to the requests of county and local government agencies for vans.

Rideshare Operations Section management also indicated that they monitor release of vans to the broker to ensure better control of sales and to obtain optimum cost recovery.

Management believes that if there were larger quantities of vans for sale, the high quality vans are sold first and the older and higher mileage vans would probably sell more slowly and/or at a lower price.

Audit staff recognizes that there are numerous considerations that drive the level and type of fleet maintained as well as the timing of van purchases and sales. These considerations can be systematically monitored and analyzed to ensure that the level of fleet inventory is cost-effective. While VanPool Program management addressed many significant considerations, we did not find a systematic approach that quantified the combined economic impact of these considerations or tradeoffs. Such an analysis would include specifying program objectives and assumptions, and assessing the net financial impact of: 1) maintaining extra vans in the fleet beyond the number required to meet estimated program needs; 2) selling retired vans sooner and in larger volume rather than holding the release of some vans to get a better resale value; and 3) holding extra vans to derive lease and loan income.⁶ Absent a more quantified and documented evaluation, the current level of retired vans does not seem justified.

⁶ VanPool Program generated income of \$10,000, \$58,000, and \$63,000 from lease and loan of vans in 1998, 1999, and 2000, respectively.

Executive Response to Finding 2-1

“We agree with the Auditors’ finding. In 1999 and 2000, Rideshare Operations kept more vans in the retired fleet than in 1998 and today. The uncertainties of Initiative 695 necessitated retaining retired vans as a contingency measure to supplement the potential loss of transit service or expand regional vanpool services in Puget Sound.

“The report acknowledges the existence of two distinct fleet categories—active and retired. Vans identified for vanpool groups are either in service with a vanpool group, assigned as a loaner to a maintenance facility, used to address size changes for existing groups or awaiting new vanpool formations.

“Vans identified as retired have completed their vanpool service and are reserved to meet Council Proviso requirements or assigned to short-term use prior to sale. Rideshare Operations manages 26 proviso vans and approximately 130 van loans annually to local law enforcement, community and youth-related events and various city and county sponsored tours or ceremonies. In 1997 and 1999, vans from the retired fleet were used to temporarily meet the demand for vanpool groups exceeding the supply available in the active fleet.”

RECOMMENDATION

- 2-1** Rideshare Operations Section should establish a system for regularly evaluating and maintaining a cost-effective VanPool Program inventory of vans. This system should include timely sale of vans and other fleet changes consistent with achieving the program objectives.

Executive Response

“We agree. Rideshare Operations Section will formally document the current system in use, since most of the considerations identified in the draft audit report are taken into account in the determination of fleet inventory.

“The audit report concludes that the yields from broker-assisted sales exceed those from public auction. However, it has not been fully documented that the increased yields counterbalances the costs incurred by selling the vans more slowly. Rideshare Operations will conduct an assessment of the current market for used vans to determine the appropriate timing for retired van sales. This analysis will incorporate the impacts of retaining vehicles for lease, loan, new initiatives and Council Proviso’s for van donations. Rideshare Operations will work closely with the van sales broker to not only continue to maximize the current

high return on used van sales, but determine the potential economic benefits of selling vans at a faster and lower price.”

3 COST RECOVERY AND RATE-SETTING METHODOLOGY

This chapter focuses on the VanPool Program's compliance with the council-mandated recovery of costs and the rate-setting methodology for developing passenger fares that became effective in April 2000. The audit did not include a review of revenues and expenditures, or an assessment of whether the costs were reasonable. Accordingly, the County Auditor's Office does not express an opinion on them.

The VanPool Program was designed to be a partially self-supporting program. The main sources of revenue are the passenger fares from vanpool participants and subsidy from the Department of Transportation Public Transportation Fund. The expenses of the program include the costs of purchasing vans; maintenance, fuel, oil, insurance, and other operating expenses; and administrative and overhead expenses. Exhibit E shows the VanPool Program fare revenue and expenditures from 1997 through 2000.

EXHIBIT E Passenger Fares & Other Income, Expenditures, and Expenditures Over Fares & Other Income 1997 – 2000

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Fares & Other Income	\$3,661,000	\$3,819,000	\$4,193,000	\$4,536,000
Expenditures				
Capital Costs	1,419,000	1,638,000	1,959,000	2,165,000
Operating Expenses	2,403,000	2,121,000	2,301,000	2,428,000
Administrative Expenses				
Vanpool Accounting	229,000	271,000	283,000	322,000
Vanpool Fleet Management	435,000	481,000	512,000	465,000
Vanpool Coordination	273,000	304,000	401,000	439,000
Total Administrative Expenses	937,000	1,056,000	1,196,000	1,226,000
Total Expenditures	4,759,000	4,815,000	5,456,000	5,819,000
Expenditures Greater than Fares & Other Income	\$1,098,000	\$996,000	\$1,263,000	\$1,283,000
Percentage of Expenditures Greater than Fares & Other Income	29.99%	26.08%	30.12%	28.28%

SOURCE: IBIS Cost Center Status Reports and Metro Transit Revenue Reports, 1997 - 2000

In 1997, the King County Code (KCC 28.94.185) authorized the Director of the Department of Transportation to establish rates of fare at a level reasonably estimated to recover the capital and operating costs and at least 25 percent of the cost of administering the VanPool Program. Subsequent to the adoption of the code section, the first fare increase was implemented in April 2000.

FINDING 3-1**THE VANPOOL PROGRAM DID NOT MEET COUNCIL-MANDATED COST RECOVERY REQUIREMENT FROM 1997 THROUGH 2000.**

The VanPool Program did not comply with the King County Code requirement to recover the full costs of capital and operations and at least 25 percent of the administrative costs. The VanPool Program calculation for the 2000 fare adjustment projected an increase of about 30 percent on existing fares. Metro Transit management, however, capped the increase at 22 percent for 8-passenger vans and 10 to 22 percent for all other vans. This approach was adopted in an effort to reduce the impact of fare increases on vanpool participants. Thus, despite the fare increase in 2000, the VanPool Program failed to recover vanpool costs of about \$363,000. Exhibit F displays the amounts that were not recovered from the passenger fares from 1997 through 2000.

EXHIBIT F
Passenger Fares & Other Income and Costs for Recovery
1997 - 2000

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Fares & Other Income	\$3,661,000	\$3,819,000	\$4,193,000	\$4,536,000
Costs for Recovery				
Capital Costs	1,419,000	1,638,000	1,959,000	2,165,000
Operating Expenses	2,403,000	2,121,000	2,301,000	2,428,000
25% of Administrative Costs*	234,000	264,000	299,000	306,000
Total	4,056,000	4,023,000	4,559,000	4,899,000
Costs Not Recovered	\$395,000	\$204,000	\$366,000	\$363,000

* Administrative costs represent vanpool coordination, vanpool fleet management, and vanpool accounting.

SOURCE: Rideshare Operations Section and IBIS Cost Center Status Reports

Executive Response to Finding 3-1 *“We agree with the Auditors’ finding.”*

RECOMMENDATION

- 3-1** The Rideshare Operations Section should review its vanpool fare structure and operating costs for its vanpool program to adjust fares, as needed, to ensure compliance with the King County Code which requires full recovery of capital and operating costs and at least 25 percent of administrative costs.

Executive Response

“We agree. Historically, Rideshare Operations has interpreted the King County Code to mean that over time, fares collected from riders will be sufficient to cover program costs. This longer view approach reduces the impact on the fares due to the timing of capital program activities and market demand. Rideshare Operations will annually calculate the program recovery rate for comparison to the King County Code, compare the result to the recovery rate in the financial plan and propose a change in the fare, if necessary.

“The annual vanpool fare review conducted in the annual budget process includes an update of the VanPool Program’s financial plan. This plan includes previous year actuals, a combination of actual and projected data for the current year and updated capital program. The result is a statement of projected revenues and costs for the next five to ten years. Fare adjustments are then estimated and included in the financial plan.

“When fares for 2000 were being analyzed in the fall of 1999, the program’s financial plan identified a need for increases every two years. The next scheduled increase is for 2002 which is reflected in the program’s current financial plan.”

FINDING 3-2**THE VANPOOL PROGRAM RATE-SETTING PROCESS
COULD BE IMPROVED BY DEVELOPING POLICY
GUIDELINES THAT ADDRESS SOME FACTORS
AFFECTING FARES.**

The audit staff reviewed the records used by Metro Transit to project adjustments for passenger fares that became effective in April 2000. Some important factors were not addressed by Metro Transit in establishing the 2000 adjustments for passenger fares. These include the following:

- Van sales recovery rate – The management-expected recovery rate of 40 percent, used in projecting the capital costs, differed from the actual recovery rate from van surplus sales in 1996 through 1999. During that period, the VanPool Program had a net recovery rate of about 48 percent from combined surplus sales of vans through public auctions, broker-assisted sales, a one-time special sale to Kitsap Transit, and lease-purchase transactions. In addition, the average actual recovery rate from broker-assisted sales for the same period was about 46 percent, and the recovery rate from broker-assisted sales in 2000 was about 40 percent. Absent any other adjustments, a lower passenger fare would have been derived had actual recovery rate from surplus van sales been used in the 1999 fare analysis.
- Estimated life cycle of vans – In projecting the capital costs, a five-year life cycle for passenger vans was used; that is, the acquisition costs of vehicles were intended to be recovered within a five-year period. Beginning in 2001, the retirement policy with respect to life cycle was extended to

six years. The combined impact of capital costs based on a six-year life cycle and the average recovery rate from broker-assisted surplus sale of vans mentioned above could reduce passenger fares for an 8-passenger vanpool group by about \$53, and by \$66 and \$76 for 12- and 15-passenger vanpool groups, respectively, excluding the probable effects of higher maintenance costs for utilizing older vans and the administrative costs discussed below.

- Administrative costs – The Rideshare Operation Section needs to define what constitutes the “cost of administering the vanpool program,” of which a minimum of 25 percent is to be recovered per the King County Code. Exhibit E (page 13) shows that vanpool accounting, fleet management, and coordination services are included in the administrative expenses. These costs include salaries, temporary help, employees’ benefits, supplies, travel, training, printing, leases/rentals, and telephones. The audit staff found that the program’s calculation for fare adjustment that became effective in 2000 provided no explanation of what constituted administrative costs. Also, no policy guidelines were developed setting fourth the criteria for determining the administrative costs associated with the operation of the Vanpool Program.
- Frequency of fare review and adjustment – In conjunction with the budget process, the VanPool Program reviews program revenues and expenditures annually. However, audit staff noted that the program did not have policy guidelines pertaining to the frequency when revenues and costs are to be reviewed and fares adjusted to ensure compliance with the council-mandated cost recovery. The VanPool Program revenue, as shown in Exhibit F (page 15), was consistently insufficient to recover vanpool costs mandated by the council starting in 1997.

Executive Response to Finding 3-2

"We agree with the Auditors' finding."

RECOMMENDATION

- 3-2** The Rideshare Operations Section should develop policy guidelines for calculating passenger fares that consider the recovery rate from surplus van sales, impact of six-year life cycle, clarification of administrative costs, and frequency of schedule for reviewing and adjusting vanpool passenger fares to comply with council intent.

Executive Response

"We agree. Rideshare Operations Section will develop policy guidelines for the calculation of vanpool passenger fares. Several of the factors noted above are already included, such as changing to a six-year van replacement schedule, in the 2001 vanpool financial plan. Administrative costs are defined as only those expenses directly related to the operation and administration of the VanPool program, and a more aggressive assumption for surplus van sale proceeds is currently used. These and other factors will be included in the drafting of policy guidelines."

APPENDICES

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APPENDIX 1

Vans in Operations, Retired Fleet Available, Active Fleet Available, Vanpool Starts, Discontinued, and Trades 1998 Through May 2001

Column	Retired Fleet					F	G	H	I	Vanpool Groups			
	A	B	C	D	E					J	K	L	M
Month	Vans in Operations (VIO)	Available for Surplus	Reserved	Total Retired Fleet Available	Percentage of Retired Fleet to VIO	Active Fleet Reserved	Percentage of Active Fleet Reserved to VIO	Total Active & Retired Fleet Available for Assignment/ Surplus	Percentage of Available Active & Retired Fleet to VIO	Starts	Discontinued	Increase (Decrease)	Trades
Jan-98	621	53	0	53	9%	14	2%	67	11%	16	8	8	20
Feb-98	625	13	0	13	2%	55	9%	68	11%	11	7	4	8
Mar-98	638	0	13	13	2%	40	6%	53	8%	16	3	13	10
Apr-98	633	1	12	13	2%	41	6%	54	9%	4	9	-5	12
May-98	631	0	13	13	2%	41	7%	54	9%	8	10	-2	11
Jun-98	631	0	13	13	2%	44	7%	57	9%	8	8	0	9
Jul-98	634	0	13	13	2%	46	7%	59	9%	11	8	3	7
Aug-98	638	106	13	119	19%	37	9%	156	24%	15	11	4	20
Sep-98	642	47	10	57	9%	36	6%	93	14%	8	4	4	4
Oct-98	648	131	10	141	22%	26	4%	167	26%	16	10	6	21
Nov-98	662	125	40	165	25%	22	3%	187	28%	16	2	14	9
Dec-98	661	124	0	124	19%	51	8%	175	26%	10	11	-1	23
Average	639	50	11	61	10%	38	6%	99	16%	12	8	4	13
Jan-99	655	122	0	122	19%	52	8%	174	27%	9	15	-6	18
Feb-99	650	113	0	113	17%	56	9%	169	26%	10	15	-5	12
Mar-99	661	113	0	113	17%	61	9%	174	26%	18	7	11	10
Apr-99	665	106	0	106	16%	55	8%	161	24%	17	13	4	9
May-99	677	20	9	29	4%	43	6%	72	11%	21	9	12	12
Jun-99	685	18	8	26	4%	36	5%	62	9%	20	12	8	7
Jul-99	688	46	22	68	10%	22	3%	90	13%	16	13	3	43
Aug-99	689	115	22	137	20%	22	3%	159	23%	10	9	1	85
Sep-99	692	114	22	136	20%	22	3%	158	23%	11	8	3	14
Oct-99	701	98	11	109	16%	22	3%	131	19%	22	13	9	8
Nov-99	703	107	27	134	19%	15	2%	149	21%	10	8	2	24
Dec-99	705	112	27	139	20%	7	1%	146	21%	12	10	2	4
Average	681	91	12	103	15%	34	5%	137	20%	15	11	4	21
Jan-00	712	76	26	102	14%	40	6%	142	20%	18	11	7	22
Feb-00	710	80	23	103	15%	34	5%	137	19%	13	15	-2	21
Mar-00	703	80	23	103	15%	42	6%	145	21%	7	14	-7	16
Apr-00	687	72	21	93	14%	50	7%	143	21%	8	24	-16	25
May-00	682	75	17	92	13%	63	9%	155	23%	5	10	-5	10
Jun-00	669	123	14	137	20%	74	11%	211	32%	12	25	-13	69
Jul-00	675	123	14	137	20%	77	11%	214	32%	17	11	6	15
Aug-00	672	121	14	135	20%	73	11%	208	31%	8	11	-3	16
Sep-00	670	106	10	116	17%	78	12%	194	29%	9	11	-2	53

**Vans in Operations, Retired Fleet Available, Active Fleet Available, Vanpool Starts, Discontinued, and Trades
1998 Through May 2001**

Column	Retired Fleet					F	G	H	I	Vanpool Groups			
	A	B	C	D	E					J	K	L	M
Month	Vans in Operations (VIO)	Available for Surplus	Reserved	Total Retired Fleet Available	Percentage of Retired Fleet to VIO	Active Fleet Reserved	Percentage of Active Fleet Reserved to VIO	Total Active & Retired Fleet Available for Assignment/ Surplus	Percentage of Available Active & Retired Fleet to VIO	Starts	Discontinued	Increase (Decrease)	Trades
Oct-00	674	108	0	108	16%	71	11%	179	27%	11	7	4	13
Nov-00	677	108	0	108	16%	69	10%	177	26%	8	5	3	10
Dec-00	681	95	0	95	14%	69	10%	164	24%	12	8	4	11
Average	684	97	14	111	16%	61	9%	172	25%	11	13	-2	23
Jan-01	690	50	0	50	7%	68	10%	118	17%	13	4	9	15
Feb-01	694	46	0	46	7%	59	9%	105	15%	12	8	4	9
Mar-01	694	46	0	46	7%	55	8%	101	15%	16	16	0	11
Apr-01	699	46	0	46	7%	55	8%	101	14%	9	4	5	16
May-01	701	39	6	45	6%	49	7%	94	13%	6	4	2	16
Average	696	45	1	47	7%	57	8%	104	15%	11	7	4	13

SOURCE: Rideshare Operations Section Vanpool Fleet Status Reports and Vanpool Status Reports

Explanations for column headings:

- A: Vans in operations – vans used by existing vanpool groups
- B: Available for surplus –retired vans available for surplus sale
- C: Reserved – retired vans reserved for short-term active service
- D: Total retired fleet available – total number of vans under columns B and C
- E: Percentage of retired fleet to VIO – percentage of column D to vans in operations, column A
- F: Active fleet reserved – vans not yet retired and are reserved for new vanpool groups
- G: Percentage of active fleet reserved to VIO – percentage of column F to vans in operations, column A
- H: Total active and retired available for assignment/surplus – total number of vans under columns D and F
- I: Percentage of active and retired available to VIO – percentage of column H to vans in operations, column A
- J: Starts – vans issued to new vanpool groups
- K: Discontinued – vans from discontinued vanpool groups
- L: Difference between columns J and K
- Trades – vans exchanged for similar or different passenger size

APPENDIX 2

EXECUTIVE RESPONSE



King County Executive
RON SIMS

RECEIVED

JUL 20 2001

KING COUNTY AUDITOR

July 20, 2001

Cheryle A. Broom
King County Auditor
Room 402
COURTHOUSE

Dear Ms. Broom:

Thank you for the opportunity to review and respond to your preliminary draft management audit report of Metro Transit's Vanpool Replacement and Surplusing Practices dated July 6, 2001. We appreciate the thoroughness and professionalism of the audit staff.

We agree with the Auditor's general conclusion that Metro Transit's replacement and surplusing practices for used passenger vans were reasonable but that it appears there were more vans than necessary kept in the retired fleet in 1999 and 2000. The response clarifies our approach to fleet inventory management and the definition of both active vanpool and retired van fleets. We agree with the Auditor's findings and recommendations related to the Council's cost recovery requirements and the vanpool fare rate setting process. We believe that following through on the recommendations to review and document policies and systems will result in increased efficiency and clarity for the vanpool program.

For ease of presentation, our attached responses are referenced to each of the findings and recommendations contained in the Auditor's preliminary draft report. If you require additional information or have any further questions, please contact Park Woodworth, Manager, Paratransit/Rideshare Section, Metro Transit Division, at (206) 263-4494.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Sims", written over a circular stamp.

Ron Sims
King County Executive

Attachment

cc: Paul A. Toliver, Director of Transportation (DOT)
Rick Walsh, General Manager, Metro Transit Division, DOT
Park Woodworth, Manager, Paratransit/Rideshare Section, DOT

KING COUNTY COURTHOUSE 516 THIRD AVENUE, ROOM 400 SEATTLE, WA 98104-3271
(206) 296-4040 296-0194 FAX 296-0200 TDD E-mail: ron.sims@metrokc.gov

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Attachment

Finding 2-1 In 1998 through May 2001, the VanPool Program appeared to maintain more vans in the retired fleet than were necessary for vanpool groups and to meet other program needs.

Executive Response: We agree with the Auditors' finding. In 1999 and 2000, Rideshare Operations kept more vans in the retired fleet than in 1998 and today. The uncertainties of Initiative 695 necessitated retaining retired vans as a contingency measure to supplement the potential loss of transit service or expand regional vanpool services in Puget Sound.

The report acknowledges the existence of two distinct fleet categories – active and retired. Vans identified for vanpool groups are either in service with a vanpool group, assigned as a loaner to a maintenance facility, used to address size changes for existing groups or awaiting new vanpool formations.

Vans identified as retired have completed their vanpool service and are reserved to meet Council Proviso requirements or assigned to short-term use prior to sale. Rideshare Operations manages 26 proviso vans and approximately 130 van loans annually to local law enforcement, community and youth-related events and various city and county sponsored tours or ceremonies. In 1997 and 1999, vans from the retired fleet were used to temporarily meet the demand for vanpool groups exceeding the supply available in the active fleet.

Recommendation 2-1 Rideshare Operations Section should establish a system for regularly evaluating and maintaining a cost-effective VanPool Program inventory of vans. This system should include timely sale of vans and other fleet changes consistent with achieving the program objectives.

Executive Response: We agree. Rideshare Operations Section will formally document the current system in use, since most of the considerations identified in the draft audit report are taken into account in the determination of fleet inventory.

The audit report concludes that the yields from broker-assisted sales exceed those from public auction. However, it has not been fully documented that the increased yields counterbalances the costs incurred by selling the vans more slowly. Rideshare Operations will conduct an assessment of the current market for used vans to determine the appropriate timing for retired van sales. This analysis will incorporate the impacts of retaining vehicles for lease, loan, new initiatives and Council Proviso's for van donations. Rideshare Operations will work closely with the van sales broker to not only continue to maximize the current high return on used van sales, but determine the potential economic benefits of selling vans at a faster and lower price.

Finding 3-1 The VanPool Program did not meet council-mandated cost recovery requirement from 1997 to 2000.

Executive Response: We agree with the Auditors' finding.

APPENDIX 2 (Continued)

Attachment

Recommendation 3-1 The Rideshare Operations Section should review its vanpool fare structure and operating costs for its vanpool program to adjust fares, as needed, to ensure compliance with the King County Code which requires full recovery of capital and operating costs and at least 25 percent of administrative costs.

Executive Response: We agree. Historically, Rideshare Operations has interpreted the King County Code to mean that over time, fares collected from riders will be sufficient to cover program costs. This longer view approach reduces the impact on the fares due to the timing of capital program activities and market demand. Rideshare Operations will annually calculate the program recovery rate for comparison to the King County Code, compare the result to the recovery rate in the financial plan and propose a change in the fare, if necessary.

The annual vanpool fare review conducted in the annual budget process includes an update of the VanPool Program's financial plan. This plan includes previous year actuals, a combination of actual and projected data for the current year and updated capital program. The result is a statement of projected revenues and costs for the next five to ten years. Fare adjustments are then estimated and included in the financial plan.

When fares for 2000 were being analyzed in the fall of 1999, the program's financial plan identified a need for increases every two years. The next scheduled increase is for 2002 which is reflected in the program's current financial plan.

Finding 3-2 The VanPool Program rate-setting process could be improved by developing policy guidelines that address some factors affecting fares.

Executive Response: We agree with the Auditors' finding.

Recommendation 3-2 The Rideshare Operations Section should develop policy guidelines for calculating passenger fares that consider the recovery rate from surplus van sales, impact of six-year life cycle, clarification of administrative costs, and frequency of schedule for reviewing and adjusting vanpool passenger fares to comply with council intent.

Executive Response: We agree. Rideshare Operations Section will develop policy guidelines for the calculation of vanpool passenger fares. Several of the factors noted above are already included, such as changing to a six-year van replacement schedule, in the 2001 vanpool financial plan. Administrative costs are defined as only those expenses directly related to the operation and administration of the VanPool program, and a more aggressive assumption for surplus van sale proceeds is currently used. These and other factors will be included in the drafting of policy guidelines.

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